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GOVERNOR

STATE OF MICHIGAN  
OFFICE OF FINANCIAL AND INSURANCE REGULATION  
DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH  
STANLEY "SKIP" PRUSS, DIRECTOR

KEN ROSS  
COMMISSIONER

## BILL ANALYSIS

**BILL NUMBER:** House Bill 5855 (H-2)

**TOPIC:** Required Contract Rate Reduction Procedures

**SPONSOR:** Representative Segal

**CO-SPONSORS:** Rep. Stanley, Gregory, Jones, Scripps, McDowell, Schmidt, Lindberg, Slavens, Hidlenbrand, Marleau, Walsh, Kowall, Green, Calley, Ball, and Scott

**COMMITTEE:** Insurance

**DATE:** May 11, 2010

### POSITION

The Office of Financial and Insurance Regulation (OFIR) supports this legislation.

### PROBLEM/BACKGROUND

Some health maintenance contracts are issued to provide coverage to individuals under state and/or federal health programs. Under MCL 500.3525(1), a health maintenance organization (HMO) is required to file all contract and/or rate changes with OFIR 60 days prior to use. Under subsection (3), not less than 30 days before the effective date of the change, the HMO must provide written notice to each affected subscriber or group of subscribers indicating the extent of the proposed change.

The filing and notification requirements in subsections (1) and (3) create a situation that is problematic for certain HMOs. When the change in the contract or rate is required due to a change in the law, a state or federal administrative action, or an executive order, an HMO is not always given enough notice from program administrators to meet the necessary filing and notification requirements. HMOs must choose whether to be out of compliance with the federal or state health program or to be out of compliance with the 30 day subscriber notice requirement under subsection (3).

## **DESCRIPTION OF BILL**

House Bill 5855 amends MCL 500.3525(3), providing that advance notice shall not be required for changes made to contracts or rates issued in connection with state and federal programs provided for in Section 3571, if the change results from a change in the law, a state or federal administrative order, or an executive order and there is not a reasonable period of time for an HMO to give advance notice of the change. In those instances an HMO shall provide notice to subscribers within 30 days after the effective date of the change.

## **SUMMARY OF ARGUMENTS**

### **Pro**

Health maintenance contract or rate changes that are prompted by changes in the law or by an administrative change, either at the state or federal level, are out of the control of the HMO. This legislation provides an efficient means under which HMOs can implement required changes while still providing consumers with notice.

### **Con**

Allowing HMOs to notify subscribers of contract changes after the effective date of those changes exposes subscribers to the risk of incurring charges or receiving services which are no longer covered, potentially making the subscriber responsible for payment for the non-covered service.

## **FISCAL/ECONOMIC IMPACT**

OFIR has identified the following revenue or budgetary implications in this bill:

(a) To the Office of Financial and Insurance Regulation: None

Budgetary:

Revenue:

Comments:

(b) To the Department of Energy, Labor & Economic Growth: None

Budgetary:

Revenue:

Comments:

(c) To the State of Michigan: None

Budgetary:

Revenue:

Comments:

(d) To Local Governments within this State: None

Comments:

**OTHER STATE DEPARTMENTS**

None.

**ANY OTHER PERTINENT INFORMATION**

None.

**ADMINISTRATIVE RULES IMPACT**

The proposed legislation would amend the Michigan Insurance Code. OFIR has general rulemaking authority under the Insurance Code, 1956 PA 218.



Ken Ross  
Commissioner

5.12.10

Date

